CORPORATE SOCIAL PERFORMANCE AND FINANCIAL PERFORMANCE: A THEORETICAL FRAMEWORK

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ABSTRACT

The aim of this study is to introduce a framework that provides a solid theoretical foundation for analyzing the social, environmental, and economic activities of a business firm or chain. In doing so, the framework aligns, at least in its structure, with the theoretical advancements in the field of business and society. Moreover, it is contended that focusing on a specific aspect of Wood's model implies the adoption of a particular ethical perspective, potentially overlooking other perspectives.

KEYWORDS: Corporate Social Performance(CSP), Slack Resource, Managerial Opportunism, Social Impact

INTRODUCTION

The community of Business and Society scholars has been investigating the relationship between corporate Social Performance(CSP) and financial performance for over three decades but the empirical evidence is too mixed to allow for any firm conclusions. According to Clarkson, M.: 1995, companies respond to stakeholder concerns rather than social issues since there are no issues without stakeholders. Carroll's corporate social performance model incorporates economic issues into a framework for social performance. Furthermore, it integrates ethical and charitable aspirations into a logical economic and legal framework. A business organization's configuration of social responsibility principles, social responsiveness procedures, policies, programmes, and observable outcomes as they relate to the firm's social interactions is known as corporate social performance (CSP), according to Wood (1991). It includes organizational processes of environmental assessment, stakeholder management, and issues management, as well as various measures of its external manifestations and societal effects. Wood's model is a simple system of inputs, throughputs, and outputs, and corporate citizenship could be a better title for it (CC). The 2001 Best Article Award was granted to Orlitzky and Benjamin (2001) by the International Association for Business and Society (IABS) in collaboration with California Management Review. The research article that best satisfies the following requirements will receive the 2004 Moskowitz Prize: practical importance for socially responsible investing practitioners; applicability to the social investment area.

The other fundamental element of this examination is corporate financial performance (CFP), which is typically regarded as less confusing and controversial than corporate citizenship (CC) CFP is the extent to which a company can meet its financial or economic objectives, yet many financial performance metrics appear to vary rather than converge. The construct validity of both fundamental constructs is far from ideal, but still relevant for research synthesis, according to a closer measurement evaluation.

History and Conceptual Development of CSP

In the early twentieth century, the notion of CSP (then, social responsibility) was generally seen as a form of noblesse obliges, with charitable giving and community work serving as the primary practical definitions. The emphasis switched from "giving back" to reducing or eliminating the negative repercussions of corporate activity and employing businesses' massive resources to address important social issues in the 1960s and 1970s. In the 1980s and 1990s, theoretical perspectives were consolidated and a clear explication of its linkages with company financial performance was provided. CSP has broad philosophical origins that span history, philosophy, legal studies, economics, social interactions, and business financial performance.

Companies are under pressure to participate in public-private, multi-stakeholder, and cross-sector partnerships and to be accountable not only to shareholders but also to workers, employees, consumers, suppliers, local communities, policy-makers, and society at large (Rein and Stott 2009; Draxler 2016, Anderson 2005; Cavanagh et al. 2005). The term "corporate social performance" (CSP) refers to the values, actions, and results of social, economic, and environmental dynamics and relationships with social actors and organisations. The term "CSP" refers specifically to the ethical and/or structural principles of social responsibility or business engagement with others. The term "CSP" is derived from the prior notion of "corporate social responsibility" (CSR), which was later incorporated as one facet of CSP. The concept of CSP is derived from that of Corporate Social Responsibility (CSR) and was later incorporated as one dimension of CSP. Bowen was the first to define it in modern terms (1953). CSR has been debated in business and communications circles for over a century. Only since the 1990s have free-standing, implicitly competing ideas been challenged from a systematic standpoint. The corporate social responsiveness research programme proposed by Ackerman and Bauer (1976) claimed to aid in the analysis of the firm's internal dynamics. This study emphasises the impact of institutional variables on corporate behaviour. It describes how the firm's identity, corporate values, and managers' perceptions influence managerial practices. While researchers strive to identify general laws that can be modelled to predict how a firm will behave, real-world practices, how they evolve, and their impact on a societal scale remain underdeveloped.

One of the most common approaches to analysing social performance as a company strategy is to consider its social impacts on stakeholders (Wood and Jones 1995; Spirig 2006). Because social performance is not always a visible feature of products and services, the "stakeholders" theory perspective can assess its significance. It aims to improve relationships with stakeholder groups and their participation in the sustainable development strategy. The compliance model is based on following rules or meeting the standards of detailed audit protocols (checklists), whereas the committed-oriented approach is based on analysing and correcting the root causes of current issues.

Recent theory and research in the twenty-first century have demonstrated that the notion of CSP is dynamic, complex, and still deserving of scholarly and practitioner attention. CSP's philosophical origins are extensive, covering history, philosophy, legal studies, economics, social science, and other disciplines.

THEORIES OF CORPORATE SOCIAL PERFORMANCE

Stakeholder Theory

Stakeholder theory mainly looks at the company from the perspective of the company itself, and the perspective of the company's immediate stakeholders. This perspective is formed by stakeholder theory's claim that the company has the responsibility to operate in the interests of all its stakeholders (Freeman, 1984). Stakeholder's theory proposes a framework for examining the relationship between corporate social performance (CSP) and corporate financial performance provided by stakeholder theory. Ruf, B. M., Muralidhar, K., Brown, R. M., Janney, J. J., & Paul, K. (2001). His study found that growth in sales for the current and following year was positively correlated with change in CSP. The stakeholder theory is the mirror image of corporate social responsibility and corporate social performance. This theory state that Instead of beginning with a firm and then looking out into the world to discover what ethical commitments exist, stakeholder theory begins in the world. It identifies and characterises the persons and organisations who will be impacted by the company's actions and asks. It emphasises the philosophy of exploring the right of the individual about the conduct of the company and the duties and obligations may a business reasonably place on a certain business. In short term, stakeholder theory states that individuals whose lives are impacted by a company have the right and duty to participate in its direction. Therefore, they`re stakeholders in the company and their voices must contribute to corporate decisions. At least in theoretical form, those affected by a company`s actions become something like shareholders and owners.

Social Impact Theory

The social impact hypothesis is based on the stakeholder theory which suggests that meeting the needs of various corporate stakeholders will lead to favourable FP (Freeman, 1984). According to this hypothesis, serving the implicit claims of stakeholders enhances a company's reputation in a way that has a positive impact on its FP. Conversely, disappointing these groups of stakeholders may have a negative financial impact (Preston and O'Bannon, 1997). that the success of a business depends in part on its methods. Management pays a lot of attention to such behaviour related to social performance goals. companies need to address Shareholder value as a result of potential conflicts with society.

We have shown that good CSPs produce intangible and difficult-to-replicate resources that lead to organizational improvement. For example, investing in stakeholder relationships Creates a company's identity, reputation, and image, which are key assets for gaining and maintaining a competitive advantage (Hosmer, 1994). Can also improve relational connections because it's cheaper to Improve CSP. Improve the company's position around the world and society in general. Many companies are reluctant to incorporate CSP goals into their way of working.

Slack Resource Theory

Under the slack resource theory, a company should have a good financial position to contribute to corporate social performance. Conducting social performance needs some funds resulting from the success of financial performance. According to this theory, financial performance comes first. Corporate social performance (CSP) is the performance outcome of all CSR activities undertaken by a firm. CSP's critical indicators include corporate reputation, customer loyalty, and internal competency building. The emphasis on voluntary CSR helps to raise CSP levels. Customer behaviour and company goodwill demonstrate increased social performance of firms.

The slack resource hypothesis predicts that better FP potentially results in the availability of slack resources that may increase a firm's ability to invest in socially responsible domains such as community and society, employee relations or environment (Waddock and Graves, 1997).

One of the essential aspects of CSR and financial performance is the direction of causality. Waddock and Graves (1997) studied the empirical linkage between financial and social performance and found that CSR was positively associated with prior financial performance. The results were in line with the slack resource theory that supports that the existence of slack resources resulting from better financial performance made companies invest in areas that are related to social domains. Waddock & Graves (1997) and Dean (1998) put forward two theories to answer the question: slack resource theory and good management theory. Under the slack resource theory, a company should focus on its financial position, allowing it to contribute to the CSP. Conducting good social performance requires funds that might result from the success of financial performance. According to this theory, financial performance comes first. A good management theory holds that social performance comes first. Based on this theory, a company perceived by its stakeholders as having a good reputation will result in a stronger financial position (through market mechanism).

Managerial Opportunism Theory

Corporate managers have a high level of knowledge of the business activities they oversee. This creates a conflict of interest where selfish management makes decisions that benefit themselves rather than the company's owners and shareholders. When a manager uses an employer's information for personal gain, this is considered a case of managerial opportunism. Several theories attempt to explain what events lead managers to engage in this practice. According to the managerial opportunism hypothesis, corporate managers may pursue their private objectives to the detriment of both shareholders and other stakeholders (Weidenbaum and Sheldon, 1987; Williamson, 1967, 1985). When FP is strong, managers may reduce social expenditures to maximize their short-term private gains. Conversely, when FP weakens, managers may engage in conspicuous social programs to offset their disappointing results (Preston and O'Bannon, 1997).

Positive Synergy Theory

In general, synergy is positive. The idea is that the combined

efforts of two or more entities are greater than those entities alone. In business terms, however, though companies may aim to achieve synergy by joining forces, the result often lacks synergy, endeavoring a wasted one. The growing number of academic studies on the impact of Corporate Social Performance (CSP) on Corporate Financial Performance (CFP) and the mixed findings they report complicate efforts among managers and academics to identify the outcomes of corporate social responsibility. These mixed findings and the growing interest of managers in having satisfied corporate social policy point to the value of empirically synthesizing the evidence on the relationship between CSP and CFP. Margolis & Walsh, (2003) made valuable contributions, presenting the first meta-analysis of the empirical evidence on the impact of CSP on firm financial performance. The study indicated that the measurement and method that characterize the research often moderate relationship strength between CSP and CFP. The positive synergy hypothesis supposes that higher levels of CSP lead to an improvement of FP, which offers the possibility of reinvestment in socially responsible actions (Allouche and Laroche, 2005a). Indeed, favourable CSP leads to a surplus of available funds (social impact hypothesis) which is reallocated, in part, to the different stakeholders (slack resources hypothesis). There may then be a simultaneous and interactive positive relationship between CSP and FP, forming a virtuous circle (Waddock and Graves, 1997). However, according to the negative synergy hypothesis, higher levels of CSP lead to decreased FP, which in turn limits socially responsible investments. There may then be a simultaneous and interactive negative relation between CSP and FP, forming a vicious circle.

While empirical results concerning the nature of the relationship between CSP and FP continue to be mixed, the largest number of investigations found a positive relationship. This tendency towards the positivism of the CSP-FP link is supported by subsequent Meta-analysis (Allouche and Laroche, 2005b; Orlitzky et al., 2003; Wu, 2006).

WOOD'S MODEL OF CORPORATE SOCIAL PERFORMANCE

The term "corporate social performance" (CSP) refers to a collection of descriptive business activity classifications that emphasize the effects and results on society, stakeholders, and the organisation itself. Studies that employ specific metrics of CSP are presented and discussed using Wood's CSP model as an organisational framework. It underlines the requirement that CSP experts include pertinent material from other scholarly fields and focused on stakeholders and society. On CSP, one can adopt a different viewpoint. According to Wood's (1991) model of corporate social performance (CSP), this idea refers to the configuration of a commercial organization's:

- social responsibility principles;
- social responsiveness procedures;
- policies, programmes, and visible results concerning the firm's interactions with society.
- The three elements of this definition also represent the three main parts of Wood's model.

Wood's theory, according to some authors, may be classified as a pluralist philosophy of corporate ethics. The main ethical stances from the history of philosophy are incorporated within pluralist ethics. The basis and starting point for our comprehension of the link between business and society is stated as Wood's model. Although CSP has been around for a while, it hasn't been well-defined. It has been used interchangeably with corporate social responsibility, corporate social responsiveness, or any other business-society interaction, but each of these terms has a specific meaning and marks a different stage in the development of our knowledge of how businesses interact with their surroundings. In the 1950s and the beginning of the 1960s, management and organisation theorists (such as Bowen, 1953; Davis, 1960; Friedman, 1962; and McGuire, 1963) began to address the obligations of businesspeople. It was gradually acknowledged that the company has additional duties known as its (corporate) social obligations.

Some scientists suggested in the middle of the 1970s that while it may be worthwhile to philosophies on the firm's social responsibilities, it is even more crucial to concentrate on the firm's responsiveness (e.g., Ackerman and Bauer, 1976; Frederick, 1978; and Sethi, 1979). It was believed that responsiveness was a more concrete and doable goal. Approximately at the same time, Preston (1978) began a line of books with the phrase "corporate social performance" in the title. As stated in the opening lines, this notion was first not well defined. According to Carroll's (1979) model of CSP, it is an overarching notion that includes both the firm's obligations and responsiveness. Wartick and Cochran advanced their understanding (1985). According to their model, CSP "reflects an underlying connection between the principles of social responsibility, the social responsiveness process, and the policies designed to address social challenges" (Wartick and Cochran, 1985:758). Following her definition as a guide, Wood (1991) constructed the CSP model as outlined in figure 1 This framework is for the field of business and society by integrating the conceptual advances that have been made so far. Consequently, it incorporates all the stages in the evolution of our understanding of the relationship between business and society.

Figure1 Wood's model of CSP Source: Wood (1991:694).

THEORETICAL DEVELOPMENT

Corporate social responsibility (CSR) is the concept that modern corporations have a responsibility to society that extends beyond the interests of their shareholders or investors. Consumers, employees, the community, government, and the environment are all included. CSR is relevant to all sizes of organisations, however debates frequently center on large organisations due to their exposure and power. Corporate social performance (CSP) is a subset of CSR that focuses on actual results accomplished rather than the broader concept of a company's accountability or obligation to society. CSP is sometimes stated to be a natural result of CSR, however the distinction between the two is frequently semantic. Most debates will center on CSR, with the notion that CSP is a necessary and logical outcome. The theoretical model proposed by Huntington (1969) who defines institutions as "stable, valued, recurring patterns of behaviour" defined by their adaptability, complexity, autonomy, and coherence. The institutional theory focuses on the role of social beliefs, values, relations, constraints and expectations, and argues that corporations are embedded in a nexus of formal and informal rules. Additionally, subsequent work argues that institutions vary considerably across countries and they collectively constitute distinct "types" of national business systems (NBS) which are based on differing logics of economic activity. Whitley (1999) argues that different institutional arrangements provide differential access to critical firm resources such as labour and capital and that the norms governing trust and authority relations are crucial because they

structure exchange relationships between employers and employees.

Some academics claim that CSR is a "social construction" because of variances in the responsibilities of diverse stakeholders within institutional settings. Institutionalized standards and understandings assist enterprises in framing, communicating, and monitoring these activities in socially acceptable ways, and specific CSR practices are more likely to be embraced and become successful when anchored inside certain institutional frameworks. Despite years of study on the causes of financial performance variability, we are still far from understanding social performance heterogeneity among enterprises. Whitley (2005) emphasises various degrees of variation in internal business organisation and contends that the character of the state influences not just the level of institutional coherence but also the degree of uniformity in firm behaviour.

Political System

Whitley (1999) and de Oliveira (2006) argue that the power of the state is an important determinant of organizational outcomes and social performance. In Latin America, poor governance results in CSR activities by corporations that are a substitute for the lack of state policies. In Nigeria, firms have focused on healthcare and education as the main areas of their CSR activities to compensate for the drawbacks of the political system. Laws and regulations play an important role in facilitating the corporation's engagement with the state and its key stakeholders.

Several laws and regulations around the world aim to promote competition between firms, typically based on the neo-classical economic view of the world. However, high levels of competition can lead to lower levels of social performance (CSP). This is because firms with minimal or zero profits have fewer resources to invest in activities that would increase CSP, and as Campbell (2007) notes, firms in highly competitive environments would be more likely to cut corners and attempt to save money whenever and however possible. This has been associated with lower levels of CSP, such as compromised product quality and safety, sweating labour and cheating customers. Accordingly, corporations are more likely to score low on the CSP index.

Studies suggests that in countries where laws and regulations promote higher levels of shareholder protection, corporations will score lower on the CSP index. Some empirical studies suggest that firms in countries where values and beliefs dictate lower levels of corruption will achieve higher levels of CSP for three reasons: unethical practices will push other companies to engage in unethical practices, the state is less likely to provide incentives for them to be socially responsible, and ethical corporations themselves may have an effect on corruption in itself. Finally, some researcher suggests that the ideological system of values and beliefs of state officials and ruling parties or coalitions will also be a key factor affecting CSP variation (Campbell 2007).

Education and Labor System

Whitley (1999) defines the "system for producing and regulating skills" as two interconnected sets of institutions: education and labour. Labour union influence is a major element influencing CSP, particularly at the national level. Firms will perform better on the CSP index in countries where labour unions are more prominent, because powerful unions may push for extended benefits for employees, a greater emphasis on health and safety provisions, progressive labour relations policies, more workplace amenities, and more engaged community involvement. Prior research also indicates that labour unions can impact social performance in non-union enterprises, similar to the well-documented "threat effect" of unions on non-union pay. However, prior literature on the relationship between a corporation's slack resources and social responsibility (e.g. Buchholtz et al., 1999; Seifert et al., 2004) offers a plausible alternative in countries where labour unions have more power, corporations will score higher on the CSP index. This argument is based on two assumptions: that CSP is the result of the utilization of slack resources and not an integral part of the firm's business model or corporate culture. It assumes an underlying trade-off in the utilization of resources for which evidence is limited and an unrealistic independence among stakeholder interests. We predict a net positive relationship between the strength of labour unions and CSP. The regulation and production of human resources (i.e. the education system) can affect the variation in CSP. Prior work has shown that firms with strong CSPs attract and retain higher-quality employees. This finding has implications for how firms compete in the market for skilled human capital: they will be more likely to recruit talent by improving their social performance. The more limited the skilled human capital availability is in a country, the more likely that firms will compete by enhancing their social performance to differentiate themselves as employers and become more attractive to prospective highly-skilled job applicants. Researcher suggested that in countries with higher availability of trained and skilled human capital, corporations will score lower on the CSP index.

Financial System

Capital providers are crucial stakeholders for organisations because they finance corporate activities, although financing methods vary greatly throughout the world. Market-based financial systems have vast and liquid markets, whereas credit-based financial systems have weak, illiquid, or narrow capital markets. Large banks and/or state agencies and ministries are the main organisations in these systems, and allocation choices are made through administrative processes rather than free market activities. Corporations aim to acquire the most attractive financing arrangements in market-based financial systems with well-developed equity markets (Teoh, Welch & Wong, 1998a; Teoh, Welch & Wong, 1998b). This type of short-termism is likely to limit spending on CSR initiatives, as the advantages of such activities often manifest over time. Furthermore, in order to survive, corporations may be pushed to engage in socially irresponsible behaviour, such as misrepresenting consumers, exploiting employees, miscommunicating corporate performance, and jeopardising product safety. As a result, firms headquartered in nations with deep and extensive stock markets, closer to the market-based paradigm, will perform poorly on the CSP index. On the other hand, market-based financial systems are better structured to allocate capital resources more efficiently compared to credit-based financial systems which are based primarily on administrative processes of capital allocation. This may be true, particularly during periods of high growth when shortages of available financing become more acute (Whitley, 1999). Since prior work has shown that more capital-constrained firms score lower along CSP dimensions (Hong, Kubik & Scheinkman, 2011), we would expect that corporations in credit-based financial systems will face relatively more capital constraints and therefore, will fare worse on the CSP index. In other words, corporations in market-based financial systems will face fewer capital constraints and therefore will fare better on the CSP index. The literature has debated whether the markets are myopic or long-term oriented. Some studies have found positive stock returns associated with the announcement of

research and development projects, suggesting that markets reward firm activities that are consistent with long-term value creation.

Prior work has shown that the amount of assets under management by socially responsible investment (SRI) funds has increased dramatically in the past ten years, reaching more than $4 trillion. Sparkes and Cowton (2004) suggest that SRI has become an investment philosophy adopted by a growing proportion of large investment institutions and that in countries with larger amounts of such capital available, firms fare better on the CSP index. Mackey, Mackey & Barney (2007) argue that the higher the demand for socially responsible investment opportunities, the higher the likely increase in market value for a firm that improves its CSP. This mechanism is similar to the recruitment of highly skilled capital, and the development of a large enough SRI market could potentially reduce the cost of capital for firms with high CSP and provide additional market-based incentives for firms to improve their CSP. Therefore, we expect a positive relationship between the existence of a responsible stock market index and CSP.

Cultural System

Whitley (1999) argues that norms governing trust and authority relations are crucial for the development of collective identities and modes of eliciting compliance and commitment within authority systems. Matten & Moon (2008) argue that the cultural systems of the U.S. and Europe have generated different assumptions about society, business and government. In the US, an ethic for wealthy businessmen and corporations to "give back" to society has emerged, while in Europe a greater reliance on representative organizations has been instituted.

Crossland & Hambrick (2011) showed that cultural traits have a direct impact on managerial discretion, which they conceptualize as the "latitude of managerial action" (Hambrick & Finkelstein, 1987). This is linked to the issue of autonomous vs. consensus-based actions. Matten & Moon (2008) argue that in individualistic societies that provide discretion to private economic actors, firms are more likely to undertake explicit CSR activities in response to perceived expectations by a wider range of stakeholders. To measure the outcomes of such voluntary and explicit CSR initiatives, CSP should be higher in these societies compared to those in which CSR assumes an implicit form and is established as an institutional substitute. Cultural research suggests that in societies with higher levels of power distance, business leaders are seen as facilitators or figureheads and less as empowered decision-makers. This can generate a sense of obligation on the part of executives or other high-ranked officials to pay special attention to the expectations and needs of key stakeholders and society more broadly. On the other hand, high power distance may be negatively associated with CSP, as managers in high power distance societies may be more likely to use their power for the pursuit of personal benefits and may not particularly care about building long-term relationships with key stakeholders or feel responsible for the broader social welfare. Therefore, we predict a net negative relationship between power distance and CSP.

CONCLUSION

The aim of this paper is to introduce a framework that provides a solid theoretical foundation for analyzing the social, environmental, and economic activities of a business firm or chain. In doing so, the framework aligns, at least in its structure, with the theoretical advancements in the field of business and society. Additionally, Wood's model serves as a starting point to populate the framework's structure. While the incorporation of the ethical perspectives discussed earlier contributes to the expansion and practical implementation of Wood's model, their primary purpose is critical reflection. Moreover, it is contended that focusing on a specific aspect of Wood's model implies the adoption of a particular ethical perspective, potentially overlooking other perspectives.

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